

PUBLIC DISCLOSURE

January 6, 1997

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Western Security Bank
12-04-0111-0000**

**7401 E. Camelback Road
Scottsdale, Arizona 85251**

**FEDERAL RESERVE BANK OF SAN FRANCISCO
101 MARKET STREET
SAN FRANCISCO, CALIFORNIA 94105**

NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **Western Security Bank** prepared by the **Federal Reserve Bank of San Francisco**, the institution's supervisory agency, as of January 6, 1997. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.*

INSTITUTION'S CRA RATING:

This institution's overall CRA (Community Reinvestment Act) performance is rated **satisfactory** based upon a review of its provision of credit to its community. Evidence was found during the examination that management had taken an affirmative role in identifying and meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

The following table indicates the performance level of Western Security Bank with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>WESTERN SECURITY BANK</u> PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan-to-Deposit Ratio		X	
Lending in Assessment Area		X	
Lending to Borrowers of Different Incomes and to Businesses of Different Sizes		X	
Geographic Distribution of Loans		X	
Response to Complaints	No complaints were received during the period under review.		

DESCRIPTION OF INSTITUTION:

Western Security Bank, a wholly-owned subsidiary of Western Security Holding Company, Limited, has total assets of \$50.8 million as of September 30, 1996, and operates two branch facilities. The main office is located in central Scottsdale, Arizona, and a second office is located in northwest Scottsdale in an industrial park known as Scottsdale Airpark. Both branches are full service offices offering a variety of competitive loan products, deposit services, and ATM machines. In addition, the bank offers a courier service and, at the main office, a drive-up facility.

The bank's primary business focus is small business, construction, and consumer loans within the greater Scottsdale area. The bank's loan portfolio mix by dollar amount is comprised of 38% commercial loans, 35% construction loans, 11% commercial real estate loans, 8% consumer real estate loans, and 9% consumer loans. A majority of the bank's asset portfolio mix consists of approximately \$32.9 million in loans (65%), \$5.1 million in cash (10%), and \$5 million in securities (10%).

Other than the bank's legal lending limits, there are no apparent factors which would impede the bank's ability to help meet local credit needs. The bank's CRA performance was rated satisfactory at the previous examination on October 16, 1995.

DESCRIPTION OF *the Greater Scottsdale Area*:

Western Security Bank has designated its assessment area as the City of Scottsdale and portions of the cities of: Phoenix, Paradise Valley, and Tempe that are located along Scottsdale's western boundary. According to 1990 census data, the population of the area is 229,275. The decennial median family income of the area is \$49,838 and is 27% higher than the median family income for the encompassing metropolitan Phoenix area. Consequently, only 3.7% of the families in the assessment area are below the poverty level compared to 8.8% of the families in metropolitan Phoenix. Median housing values are \$122,206. The area is comprised of 56 census tracts; one is low-income with zero population, 2 are moderate-income, 15 are middle-income, and 38 are upper-income. Although there are few low- and moderate-income census tracts in the area, there are 14,283 (22.5%) low- and moderate-income families in the area.

Although traditionally thought of as a bedroom community to Phoenix, the population growth rate of Scottsdale has remained consistent with that of metropolitan Phoenix during the period 1985 to 1995. Moreover, during the same period Scottsdale's labor demand exceeded its population growth, thereby transforming Scottsdale into an importer of labor. The major industries in the area are retail trade and services, manufacturing, finance, and insurance and real estate services.¹ The unemployment rate is 4.3% which is lower than the metropolitan Phoenix unemployment rate of 6%.

¹The major employers in Scottsdale with employees over 1,000 include Motorola Government Electronics Group, Scottsdale Unified School District, PCS Health Systems (Eli Lilly), City of Scottsdale, Mayo Clinic, Scottsdale Princess Resort, and Scottsdale Insurance Company.

Community representatives who were interviewed in conjunction with this examination identified small business loans and home improvement/rehabilitation loans as the primary credit needs.

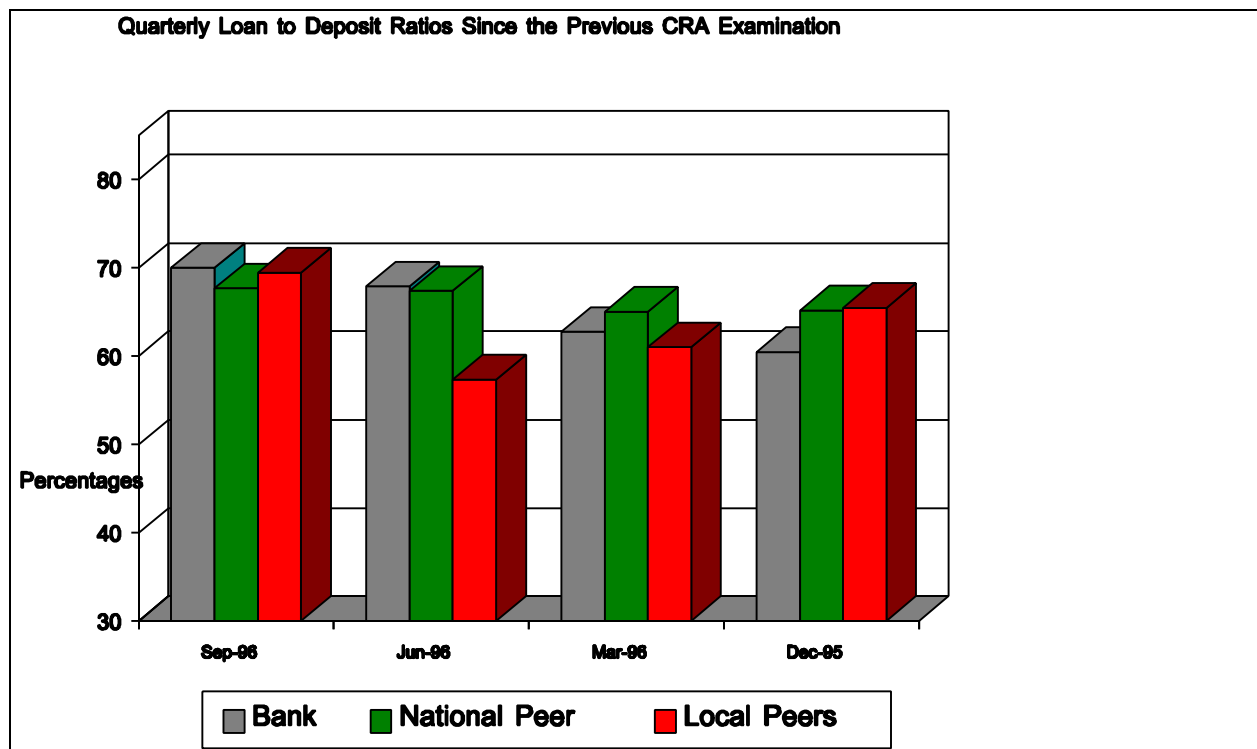
CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

The five performance criteria considered in the CRA evaluation are the bank's loan-to-deposit ratio, lending in the assessment area, lending to borrowers of different income levels and to businesses of different sizes, the geographic distribution of loans, and its response to complaints about the bank's CRA performance.

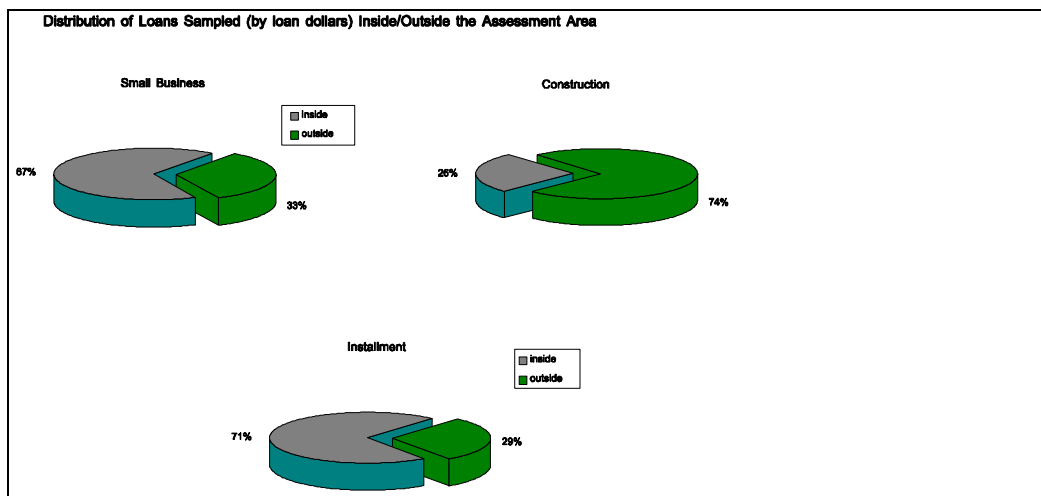
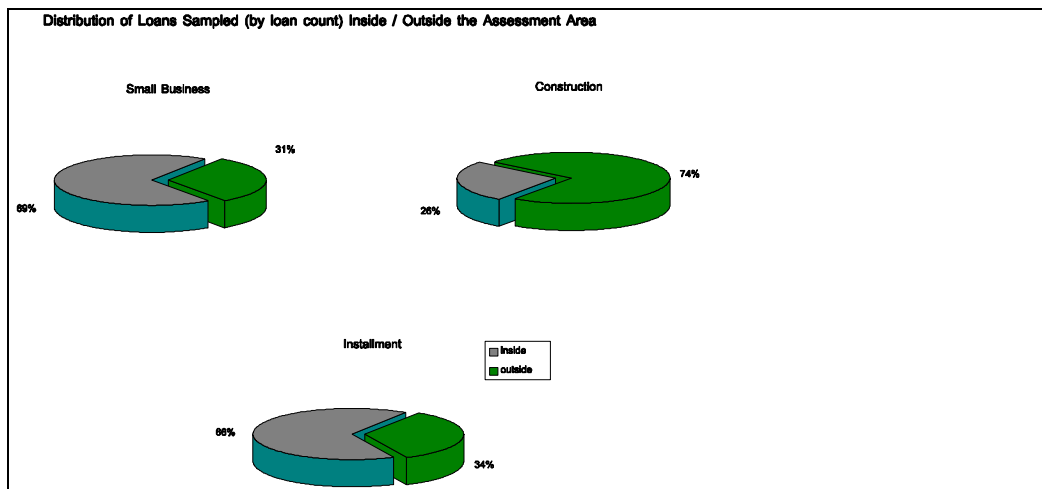
LOAN TO DEPOSIT RATIO:

In analyzing the bank's loan-to-deposit ratio, a quarterly average for the quarters from December 1995 through September 1996 was calculated. The bank's average loan-to-deposit ratio for four-quarters is 65.25 %. That ratio was compared to similarly situated banks locally. The local peer group was identified on the basis of similarities in asset size, branch network, targeted market, and major products lines. In this regard, four local banks were identified with quarterly loan-to-deposit ratios ranging from 23.11% to 90.85%. The bank's loan-to-deposit ratio compares favorably to its peer banks. On a larger scale, the bank's loan-to-deposit ratio was compared to its national peer banks for the same four-quarter period. The bank's loan-to-deposit ratio compares favorably to its national peer banks with a quarterly loan-to-deposit ratio of 66.31%.

LENDING IN ASSESSMENT AREA:



The bank's responsiveness in lending was evaluated by sampling 114 small business loans totalling \$7.7 million, 39 construction loans totalling \$7.2 million, and 124 consumer installment loans totalling \$16.4 million. A geographic analysis was performed using those samples to identify the percentage of loans extended inside and outside the assessment area. The analysis shows that the majority of the credit products sampled, with the exception of construction loans, were extended within the assessment area.



The metropolitan Phoenix area exhibits an annual population growth of 4% (105,000) which generates a demand for housing construction. Most of the undeveloped land available for construction is primarily situated outside of Scottsdale. Because the bank has developed a superior reputation for providing construction financing, the bank receives referrals throughout metropolitan Phoenix. Consequently, the majority of the bank's construction lending is outside of Scottsdale. Examiners learned during the examination that bank management is making every attempt to establish relationships with more Scottsdale-based builders which would help increase the number of construction loans the bank originates within its assessment area.

The following Table illustrates the distribution of loans both by number and by dollar amount. The overall percentages are assessed as satisfactory and support the bank's commitment to serve its community.

Lending By Loan Type Inside/Outside Assessment Area

Table 1

Loan Type	Inside Assessment Area				Outside Assessment Area			
	#	%	\$	%	#	%	\$	%
Small Business	79	69%	5,163,990	67%	35	31%	2,554,319	33%
Construction	7	18%	1,870,548	26%	32	82%	5,385,360	74%
Consumer	82	66%	1,022,343	71%	42	34%	414,249	29%
Overall	168	60%	8,056,881	49%	109	40%	8,353,928	51%

LENDING BY BORROWER INCOME AND BY BUSINESS REVENUE:

Examiners reviewed a sample of small business, construction, and consumer installment loans extended within the assessment area to evaluate the extent of lending to small businesses (gross annual revenues of \$1MM or less), and to low-, moderate-, middle-, and upper-income borrowers.

Borrowers of Different Incomes

Eighty-two consumer installment loans totalling \$1,022,343 and seven construction loans totalling \$1,870,548 were extended within the assessment area and reviewed to determine the distribution of loans to borrowers of different income levels. For the analysis, the population is divided into four income groups; low-, moderate-, middle-, and upper-income, based on the median income of the Metropolitan Statistical Area (MSA). The assessment area is located in MSA 6200, which has a HUD-adjusted median family income of \$45,000.

low-income	less than 50% of MSA median income
moderate-income	between 50% and 79% of MSA median income
middle-income	between 80% and 119% of MSA median income
upper-income	120% or more of MSA median income

The percentage of low- and moderate-income families in the assessment area is 10.8% and 11.7% respectively. As depicted in the following Table, the number and dollar amount of loans originated by the bank to low- and moderate-income borrowers is similar to the borrowers' percentage of the assessment area population.

Lending By Loan Type To Different Income Levels

Table 2

Loan Type	Percentage of Families in Assessment Area							
	Low Income 10.8%		Moderate Income 11.7%		Middle Income 18.6%		Upper Income 58.9%	
	#	\$	#	\$	#	\$	#	\$
Construction ²	14%	14%	0%	0%	14%	9%	71%	78%
Consumer	11%	15%	24%	15%	24%	20%	41%	50%

Businesses of Different Sizes

Sixty-three of the 72 business loans reviewed were qualified by the bank on the basis of business revenue.³ Of the 63 business loans, 43 (68%) loans totalling \$3,695,840 were made to small businesses with revenues less than \$ 1million. For the nine loans where business revenue information was not available, there is no reason to believe that this trend would be different. Additionally, of the 43 loans to small businesses, 39 (91%) were for loan amounts of \$100,000 or less, 2 (5%) were for loan amounts greater than \$100,000 but less than or equal to \$250,000, and 2 (5%) were for loan amounts greater than \$250,000 but less than or equal to \$1 million.

The high percentage of loans to small businesses for loan amounts of \$100,000 or less demonstrates that the bank is responsive to credit needs of the small business community.

Contacts with community groups indicated that, within the bank's assessment area, the greatest capital need among small businesses is for loan amounts less than \$100,000, and the bank is meeting this credit need.

²Sample size for construction lending inside the bank's assessment area was seven loans. One loan (14%) was made to a low-income family with the remaining six being made to middle- and upper- income families.

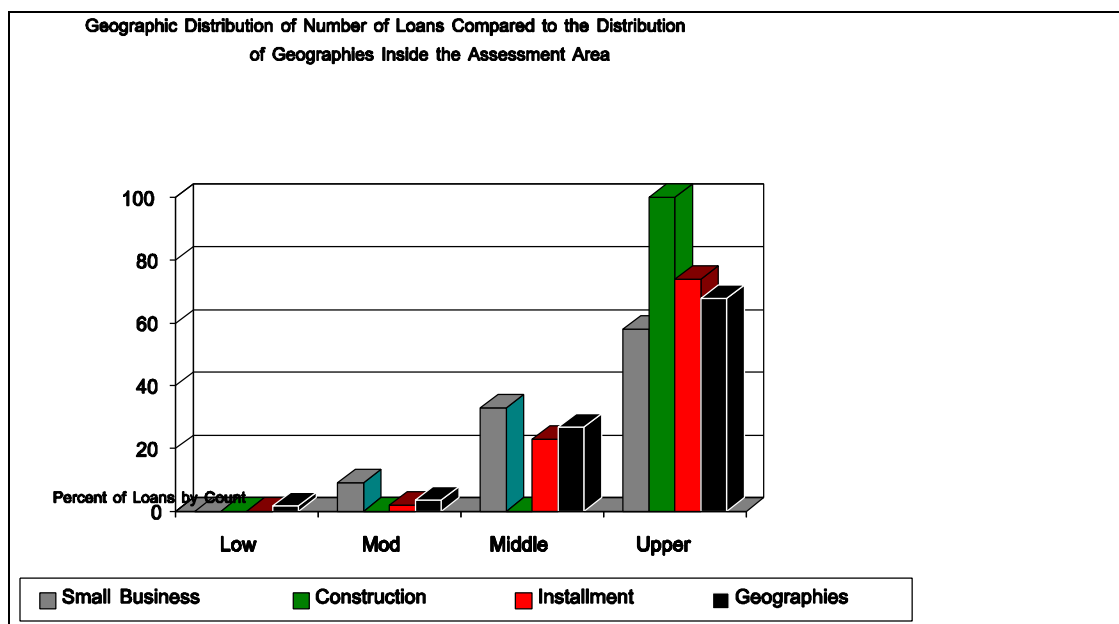
³Nine of the 72 business loans were qualified by the bank on the basis of borrower income rather than business revenue.

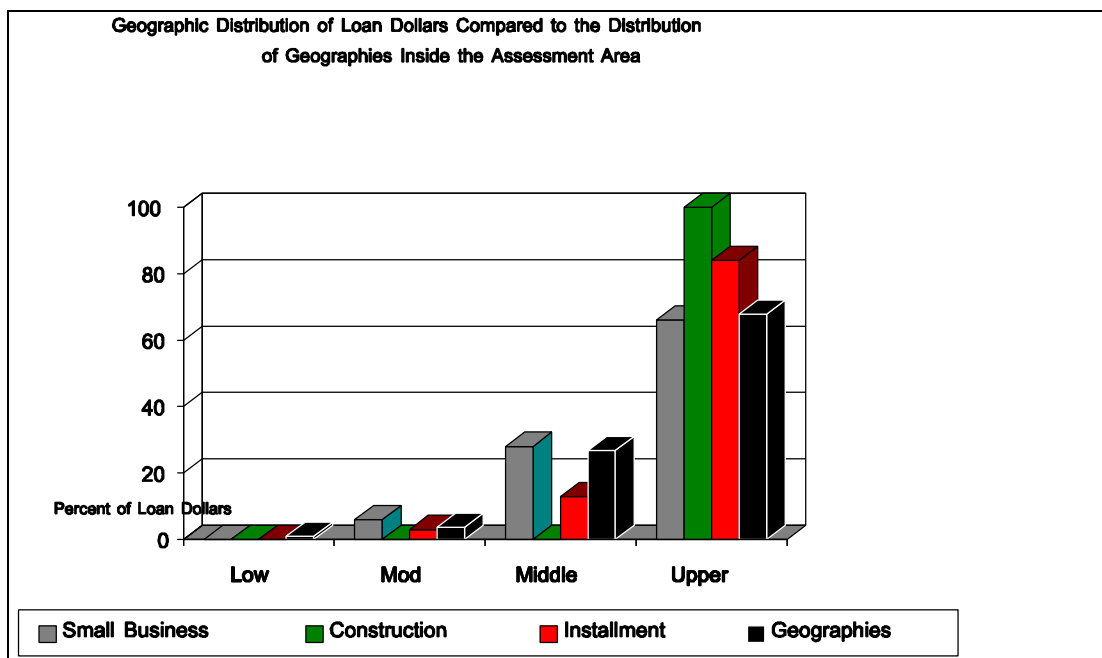
The analysis of small business, construction, and consumer installment loans, demonstrates that the bank has satisfactorily responded to the credit needs of low- and moderate-income borrowers, as well as to small business owners.

GEOGRAPHIC DISTRIBUTION OF LOANS:

The bank's geographic distribution of loans was evaluated in a similar manner as the lending performance to borrowers of different income designations. The demographics of the community identifying the number of low-, moderate-, middle-, and upper-income census tracts were compared to the number of loans extended within each of those tracts.

There is one low-income census tract that is designated low-income, but it consists of a community park and has zero population. There are two (3.6%) designated as moderate-income, 15 (26.8%) designated as middle-income, and 38 (67.9%) designated as upper-income. As illustrated by the following graphs, the bank's percentage of loans dispersed to different income geographies, both in number and dollar volume, is substantially similar to the percentage of tracts that comprise the four income categories within the assessment area. Additionally, examiners reviewed the bank's small business loans to identify the penetration of business loans extended in the areas where small businesses are located. In this regard, examiners noted that a majority of the businesses are located in middle- and upper-income census tracts which correlates favorably to the distribution of business loans among the different income geographies. The geographic distribution of loans in the assessment area meets standards for satisfactory performance.





RESPONSE TO COMPLAINTS:

The bank did not receive any written complaints about its CRA performance during the period under review; therefore, this performance criterion was not evaluated.

COMPLIANCE WITH FAIR LENDING LAWS AND REGULATIONS:

The bank is in compliance with the substantive provisions of anti-discrimination laws and regulations such as the Equal Credit Opportunity Act, the Fair Housing Act, and the Home Mortgage Disclosure Act. While there was a violation of the Equal Credit Opportunity Act, it was technical in nature and did not have a discriminatory effect. Moreover, a review of the bank's loan distribution and credit evaluation procedures indicate that no applicants are discouraged from requesting the types of credit offered by the bank. The policies, procedures, and training programs developed by the bank adequately support non-discrimination in lending.